
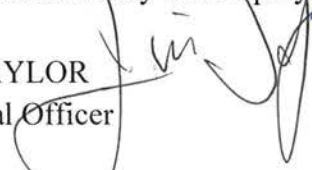


AUG 27 2013



MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: ERIC M. SELEZNOW 
Acting Assistant Secretary for Employment and Training

JAMES L. TAYLOR 
Chief Financial Officer

SUBJECT: Employment and Training Administration Response to Office of
Inspector General Report No. 22-13-015-03-370: *The U.S.
Department of Labor's Employment and Training Administration
Needs to Strengthen Controls over Job Corps Funds*

This memorandum summarizes the Employment and Training Administration's (ETA) strategy to strengthen the financial and programmatic management of the Job Corps program in response to recommendations provided in the Office of Inspector General's (OIG) report, issued May 31, 2013. As stated in ETA's original response to the report, we agree with all of the OIG's recommendations and take seriously the responsibility to quickly and effectively implement solutions. The OIG report has been posted on the Office of Job Corps (OJC) Web site (<http://www.jobcorps.gov/home.aspx>) and ETA will post regular progress updates. The actions outlined below provide needed structure and uniformity to ETA's management of the Job Corps program.

Specifically, ETA and the Department of Labor (Department) have implemented improved oversight and financial controls since the potential budget shortfalls were identified:

- In August 2012, ETA established the Office of Financial Administration (OFA), led by the ETA Comptroller, a career Senior Executive Service (SES);
 - OFA has implemented several initiatives to strengthen and coordinate existing and planned controls to ensure that obligations stay within budget and to track contractor expenditures against the submitted spend plans. These initiatives include: Monthly Status of Funds reports provided to OJC and ETA leadership; weekly meetings with OJC, the Office of Contracts Management (OCM), and ETA leadership; and monthly program year actuals to budget expense reports provided to the national office leadership and the OJC regional offices. In addition, OFA, OJC, and OCM conduct monthly meetings with the OJC regional offices to communicate the status of funding and contract related items;

- OFA works closely with the OJC and OCM to oversee all ETA national and regional office contracting activity through weekly meetings and status reports to ensure Job Corps program accounts for all costs incurred through contract vehicles in a timely and accurate fashion. This has resulted in significant improvements in the financial information and oversight of the Job Corps program. Financial analysts reconcile the OJC Financial Management System every month and monitor whether they are within their budgets. OFA will be generating exception reports that are sent to the OJC regions.
- ETA has evaluated its fiscal control processes within OFA, OJC and OCM and implemented more effective internal controls over spending by each Job Corp center contractor. This will ensure that the program is administered efficiently and will remain on strong fiscal footing in Program Year (PY) 2013 and beyond;
- ETA has adopted a budgeting approach for operating the Job Corps program that aligns the number of students with the amount allowable under the appropriation. To start PY 2013, ETA evaluated the contract and student levels renegotiated in PY 2012 to ensure they were aligned with the appropriation following sequestration. This will enable Job Corps to continue its mission of providing high-quality training to students;
- ETA obligated \$1 million in PY 2012¹ to integrate the Job Corps program's financial reporting systems with those of ETA to further the critical coordination between OFA and OJC. Two contracts were awarded for the integration of the OFA/Job Corps management system for budgeting; and Job Corps-Financial Management System (JC-FMS) with the Department's financial system of record; and
- Additional COR training has been provided to staff members who monitor Job Corps contracts to improve their skills and enable them to provide better oversight. This training included Federal appropriations law; past performance evaluation; management of budget, contract closeout, invoicing under different contract vehicles; contract administration; and COR inspection checklist.

Through a series of revised and new standard operating procedures (SOPs) and a new Programming, Budgeting, and Execution Process (PBE), ETA has strengthened the processes for Job Corps planning, requirements determination, budgeting, procurement, and evaluation in order to enhance internal controls. On June 18, 2013, OFA's Office of Budget held an all-hands "stand down" day to concentrate on producing new SOPs to clarify the specific processes and

¹ For more information, see the ETA response to Recommendation 6 below.

activities related to providing strong fiscal oversight for not only its work with the Job Corps program, but for all of ETA. This has established a defined process for all aspects of financial and contractual activity well in advance of the start of a program year and allows for more rapid response to Job Corps budget activity. This process includes enhanced communications among offices and leadership within ETA and the Department.

Recommendation 1. Establish necessary criteria and thresholds for detecting potential financial and program risks to be routinely documented and communicated, and identify the appropriate personnel within DOL to receive this periodic information.

ETA is reinforcing its existing controls and developing new controls and reporting to efficiently and effectively provide OJC management with essential information and assurances needed to manage the program. Monthly financial reports are now developed and the results are communicated to OJC regional staff, including Monthly Status of Funds, Actual to Budget Expense variances, and monthly obligations reports.

OFA has formalized its monthly reporting and communication to inform ETA leadership on the status of contract obligations when compared with allocated resources. For example, at the end of PY 2012, OFA identified, by center, the variances between contractors' spend plans and actual costs. OCM and OJC staff followed up with individual contractors on potential problems. The Contracting Officer Representatives (CORs) and Contracting Officers (COs) report back substantive issues to Job Corps management if they find the contractor is not in compliance with the contract. For example, if the contractor were to exceed the On Board Strength (OBS), the COR/CO would coordinate with leadership prior to taking appropriate action. OFA is in the process of documenting these processes, which are to be finalized by December 31, 2013.

Recommendation 2. Develop and implement formal policies and procedures or enhance existing policies and procedures.

ETA has formalized its SOPs to mitigate performance inconsistencies through its development of the PBE process document. The PBE approach provides OJC with a structured and integrated management approach that will yield more effective program management of the Operations and Construction, Rehabilitation, and Acquisition (CRA) accounts.

For example, in the end of September, OJC is convening a working session of program leadership (including the national and regional offices), OCM, and OFA to finalize the PBE and begin its implementation, including working with the regional offices to implement the new SOPs developed by OFA on June 18, 2013. ETA recognizes the need to better align procedures in the field with those of the national office to improve coordination and communication. ETA

will be working with the regional offices during the first two quarters of PY 2013 to coordinate the implementation of all SOPs for uniformity.

Recommendation 2a. Standardize OJC Regional Office standard operating procedures to reflect current processes and systems and define roles and responsibilities, including deadlines and general timing requirements pertinent to those roles and responsibilities, of OFA, OCM, and OJC.

ETA is working to put in place adequate cost monitoring practices across the regions and ensure consistency and uniformity across the program to provide center operations services at the most reasonable prices. To this end, OJC and OCM jointly established a tool to determine if there are capable companies that can provide center operations services at reasonable prices. This Request for Information (RFI) standardizes how ETA conducts market research across its six regional offices. OCM and OJC also updated the Request for Proposals (RFPs) to ensure that the soliciting document that governs the selection and award of the center operations contract is consistent with current policy. The RFPs also will require that after award, contractors comply with uniform procedures across all regions. This change will put adequate cost monitoring practices in place across all regions.

Recommendation 2b. Define precision of detail required for contractors to explain variances between budget and actual expenses on their cost reports.

ETA has changed its process for monitoring the variances between each Job Corps contractor's planned spending and actual expenses. ETA now identifies the specific difference between a contractor's spend plan and actual costs on a monthly basis. This process change allowed OFA to quickly identify the aggregate variance at the end of PY 2012 between the contractors' spend plans and expenses on their cost reports. OFA then shares this information with regional staff to obtain specific feedback on the analysis of specific contractor's variance. While the SOPs are being finalized, ETA has changed its process of monitoring the variance between budget and expenses. This process change has allowed OFA to identify the variance at the end of PY 2012 between the budget and expenses on their cost report. OFA also communicated this information to regional staff that was critical in discussing the differences with the contractors and providing useful feedback on the analysis. Variance thresholds as well as the requirements for contractor explanation of said variances are defined in the Job Corps Policy and Requirements Handbook Chapter 5 Appendices 502 and 503. Line item variances exceeding 5 percent of the annual line item budget require an explanation and a resolution statement, unless the line variance is less than .1 percent of the total annual budget for all expenses; in which case no variance explanation is required.

Recommendation 2c. Identify required monitoring procedures to ensure that CORs are performing their duties properly.

ETA has incorporated a new element into the yearly performance standards for all CORs. This element requires the COR to perform COR competencies such as cost monitoring, proper invoice approval, etc. In addition, OCM has conducted training for all Job Corps program CORs, to provide them with the skills to implement best practices for proper cost monitoring and invoice review. OCM also has regular status meetings with CORs in order to make certain that they are implementing appropriate cost monitoring and to provide assistance and additional training if needed. However, the CORs' function is a collateral duty in addition to program management. Additional resources are needed to provide adequate COR contract administration as required.

Recommendation 2d. Establish timing requirements for processing Job Corps vouchers, and monitor delinquent vouchers to be received and processed for payment.

The Department and ETA continue to closely monitor voucher payments. A current measure used by the Department to measure ETA's performance is: *Percentage of Payment Center Invoice Interest Incurred Due to Late Payment*. The baseline for the measure is payment within 30 calendar days. After 30 days, late payments begin to accrue interest. The Fiscal Year (FY) 2013 quarter three result for ETA for this measure was 0.0031 percent. This is an ETA-wide measure and cannot be broken out by program or appropriation. For the first three quarters of FY 2013, OJC exceeded the department's performance target on interest on the late payments. ETA will continue to monitor the results of this performance measure and make improvements as required.

Recommendation 2e. Retain readily available relevant documentation associated with Job Corps funds' processes and controls, including spending plans.

OFA has implemented a system to store documents related to Job Corps funds' processes and controls, including spending plans, on the ETA shared drive. This drive is maintained by ETA's information technology staff and access is limited to appropriate personnel. To increase compliance with this recommendation, OFA also is centrally storing and maintaining apportionments and allotments that are part of the funding processes. This step is not limited to OJC and applies to all 10 of ETA's appropriations. ETA believes that by implementing these processes, it has met the requirements of this recommendation.

Recommendation 2f. Adequately support and document key plan assumptions and data inputs in initial Operations spending plans.

Throughout PY 2013, ETA changed how it prepares, proposes, and briefs ETA and Departmental officials on operating spending plans. As part of the PY 2013 process, ETA briefed Departmental management on the assumptions and data sources used to establish student levels and to project contract amounts. The PY 2013 spend plan incorporates all program requirements at sustainable levels within the appropriated level. ETA documented key assumptions and data inputs in the PY 2014 spend plan as changes were made. ETA also documented its assumptions as part of the current Administration's FY 2015 budget process. As ETA finalizes the PY 2012 spending and new decisions are made regarding PY 2013, ETA will update the Operations spending plan with the supporting documentation.

Recommendation 2g. Analyze and document quarterly apportionment requirements for Operations funds.

For the first quarter of PY 2013, ETA analyzed and documented its apportionment requirements as part of its request to the Department. ETA's apportionment and related allocation requests are determined by the incremental funding needs of Job Corps' contracts and historical analysis of those requirements.

Recommendation 2h. Monitor budget contract costs to actual contract costs at the National Office on a recurring basis using established variance thresholds.

ETA regularly monitors and reconciles OJC budgeted contract levels to actual expenses to ensure funds are spent as planned. In addition, ETA regularly analyzes all contractor financial reports received by the Job Corps data center. Since November 2012, ETA monitors on a monthly basis projected contract costs to actual contract costs. This analysis was critical to the actions ETA took in closing PY 2012 within its appropriated funding. The analysis was also a key baseline that ETA used to establish its model for FTE affordability. OFA is working to improve how this information is shared and utilized by Job Corps program regional staff. Monthly conference calls between OFA and the OJC regional offices were implemented in August 2013. During these calls OFA discusses any funding or contract specific needs/issues that are presented for resolution. The contractors' Financial Reports (2110s) are reviewed by OFA analysts and if they discern variance against the spend plan, they report the variances to the COR for discussion and resolution. ETA has developed SOPs that govern how budgeted costs are monitored versus actual contract expenses and plan to have these SOPs finalized by December 31, 2013.

Recommendation 3. Conduct a formal assessment of human capital resources needed for processes and internal controls over Job Corps funds, and periodically update the assessment.

In spring 2012, ETA (including OJC) was part of a skills assessment of financial management personnel which was carried out by the Office of the Chief Financial Officer for the entire financial staff of the Department. The survey results and subsequent training plan to meet the skills gaps identified remain a critical component in ensuring sound financial oversight of OJC activities. The training plan forms the basis for training and education of Departmental financial management personnel to improve their knowledge of Federal financial management requirements, best practices, and analytic skills.

ETA agrees that it has an insufficient number of Job Corps program acquisition CORs and contract specialists to efficiently and effectively handles the workload, and that a staffing study is needed.

The Department has assigned key offices within ETA (OJC, OCM, OFA, and the Office of Management and Administrative Services) the task of working on steps and options to address human capital resources needed for processes and internal controls over Job Corps program funds. This will be accomplished within the coming quarter.

Recommendation 4. Periodically review and update the policy for developing cost models applied in determining the IGCE used in Job Corps center contracting activities to incorporate the use of more current guidance and assumptions.

ETA recognizes that it needs to significantly improve the quality and accuracy of its Independent Government Cost Estimates (IGCE). In response to this recommendation, ETA is looking at options for addressing how to strengthen its ability to perform IGCEs, which may include the procurement of this expertise, and hopes to implement a plan in the coming months.

To provide training to ETA staff related to the IGCE while the options are being examined, ETA has consulted with two professional training organizations and plans to procure this training in the coming months. Additionally, to provide short-term improvement, OFA, working with OJC regional staff, updated several IGCE models for use in upcoming procurements. ETA will also integrate an IGCE refresher training into COR training requirements.

Recommendation 5. Formally reconcile data on a routine basis between NCFMS, JFAS, and JC-FMS.

ETA is formally reconciling data on a routine basis between the New Core Financial Management System (NCFMS), the DOL financial system of record; Job Corps Fund Allocation System (JFAS), the OFA/Job Corps management system for budgeting; and JC-FMS, the Job Corps contract budget and expense recording system. Currently, OFA prepares exception reports from the three systems, OFA analysts contact the OJC CORs, and the CORs work with the

contractors on a resolution. Each OFA analyst maintains a contract file in which all relevant contract-related documents are maintained in a central location.

Recommendation 6. Evaluate the cost-benefit of creating system interfaces between NCFMS, JFAS, and JC-FMS.

ETA agrees that it is feasible and desirable to create system interfaces between NCFMS, JFAS, and JC-FMS and is currently executing electronic reconciliations. At the end of PY 2012, ETA began developing an electronic interface between the three systems that will reconcile NCFMS and JFAS, and the data on JC-FMS by fall 2013.

To date, ETA has executed approximately \$1 million of contracts for the development of a series of customized reports and data management “dashboards” as a precursor to the reconciliation interface activities. While the interfaces are in development, ETA has developed SOPs for reconciling NCFMS, JFAS, and FMS and ETA continues to manually reconcile data from these three systems. The SOPs define the reconciliation process for procurement actions for awards.

Thank you for the opportunity to explain ETA’s progress in responding to the findings cited in the report of the Inspector General. While improvements have been achieved by taking the actions above to respond to these recommendations, there is still much work ahead. If you have any questions, please contact ETA’s Audit Liaison, Kevin Brumback, at (202) 693-3381.